

computes a separate net shortfall charge for each contract, contribution rate, employer, or benefit level under paragraph (b)(3) of this section shall determine the base unit estimation date for each separate charge without regard to any collectively bargained agreement that does not relate to that contract, contribution rate, employer, or benefit level. If a collective bargaining agreement requiring contributions by a certain employer, or prescribing a certain benefit level, is in effect on December 31, 1980, the preceding sentence shall not apply to the computation of a separate net shortfall charge for that employer or benefit level until the earlier of—

(i) The first plan year beginning after the date on which expires the collective bargaining agreement requiring contributions by that employer (or the last collective bargaining agreement relating to that benefit level), or

(ii) The first plan year beginning after December 31, 1983.

(6) *Example.* The rules contained in paragraph (f) of this section are illustrated by the following table. In the table, “V” signifies actuarial valuation date (January 1 in each case shown); “B” signifies beginning of a contract; and “E” signifies end of a contract. The table shows the resulting earliest base unit estimation date with respect to the following assumed items:

COMPUTATION OF EARLIEST BASE UNIT ESTIMATION DATE

Example	Plan year (calendar year basis)											
	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Plan A .....	V			V			V			V		
Contract 1 .....			E/B			E/B		E/B				E/B
Base unit estimation date <sup>1</sup> .....				1973	1973	1973	1976	1976	1979	1979	1979	1979
Plan B .....	V			V			V			V		
Contract 2 .....	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>	B*		E/B				E/B*		
Contract 3 .....	E/B			E/B			E/B			E/B		
Base unit estimation date <sup>1</sup> .....				1973	1973	1973	1976	1976	1976	1976	1979	1979
Plan C .....	V	V	V	V	V	V	V	V	V	V	V	V
Contract 4 .....			E/B			E/B*				E/B*		
Contract 5 .....			E/B			E/B*					E/B*	
Base unit estimation date <sup>1</sup> .....				1974	1974	1977	1977	1977	1977	1978	1979	1981

<sup>1</sup> The base unit estimation date may be on or any time after the actuarial valuation date in the year indicated on this line.

<sup>2</sup> No contract.

\* Denotes that a prior contract ends and a new contract begins prior to the fifth month of a plan year.

(g) *Amortization of shortfall gain or loss—(1) Definition.* The shortfall gain for a plan is the excess for the plan year of—

(i) The net shortfall charge computed under paragraph (b) of this section over

(ii) The annual computation charge described in paragraph (d) of this section.

The shortfall loss for a plan is the excess for the plan year of the annual computation charge over the net shortfall charge.

(2) *Shortfall amortization period—(i) First year.* The plan year in which the amortization of a shortfall gain or loss must begin is the earlier of two years: the fifth plan year following the plan year in which the shortfall gain or loss

arose, or the first plan year beginning after the latest scheduled expiration date of a collectively bargained agreement in effect with respect to the plan during the plan year in which the shortfall gain or loss arose. For purposes of this subparagraph, a contract expiring on the last day of a plan year shall be deemed to be renewed on such last day for the same period of years as the contract that succeeds the expiring contract.

(ii) *Last year.* The plan year in which the amortization of a shortfall gain or loss must end is the 15th plan year following the plan year in which the shortfall gain or loss arose. For a multiemployer plan described in section

## § 1.412(c)(1)-2

## 26 CFR Ch. I (4-1-03 Edition)

414(f), the amortization must end with the 20th plan year instead of the 15th.

(3) *Annual amortization amount.* The shortfall gain or loss must be amortized in equal annual installments. The total amount to be amortized must be adjusted for interest at the rate used for determining the plan's normal cost.

(4) *Shortfall gain or loss under spread gain type of funding method—(i) In general.* A spread gain type of funding method spreads experience gains and losses over future periods as part of a plan's normal cost. (Examples of spread gain types of funding methods are the aggregate cost method, the frozen initial liability method, and the attained age normal method.) However, a shortfall gain or loss is not an experience gain or loss. Therefore, a plan using a spread gain type of funding method together with the shortfall method must amortize shortfall gains and losses and otherwise meet the requirements of paragraph (g) of this section.

(ii) *Asset adjustment for aggregate method.* A plan using the shortfall method with the aggregate cost method of funding must adjust its plan assets for a shortfall gain or loss in calculating normal cost. The unamortized portion of any shortfall gain is subtracted from plan assets. The unamortized portion of any shortfall loss is added to plan assets.

(5) *Reconciliation of shortfall gain or loss with funding standard account.* At the beginning of each year, the actual unfunded liability under the method used by the plan must equal the outstanding balance of all amortization bases, including bases for shortfall gains and losses, less the credit balance under the funding standard account at the end of the prior year.

(6) *Example.* This paragraph is illustrated by the following examples:

*Example (1).* A multiemployer plan described in section 414 (f) is maintained with the calendar year as the plan year and uses the shortfall method. The plan uses the frozen initial liability funding method. A five percent interest assumption is used by the plan, with payments computed as of the first day of each plan year for all items. The expiration dates of contracts in effect during plan years 1976, 1977, and 1978 are such that the amortization of gains or losses for each year must begin in the fifth following plan year. The assumed plan costs and estimated

base units for selected years, and the computations under this section which follow from such assumptions are shown in the following table. In the table, “\*” denotes an assumed item. The remaining figures have been calculated on the basis of these assumptions.

### (A) COMPUTATION OF NET SHORTFALL CHARGE AND SHORTFALL GAIN OR LOSS

Plan year	1976	1977	1978
1. Normal cost* ..	\$100,000	\$100,000	\$100,000
2. Amortization of unfunded liability* .....	50,000	50,000	50,000
3. Total annual computation charges .....	\$150,000	\$150,000	\$150,000
4. Estimated base units* .....	100,000	100,000	100,000
5. Estimated unit charge (line 3÷line 4) .....	\$1.50	\$1.50	\$1.50
6. Actual units during year* ....	80,000	90,000	110,000
7. Net shortfall charge for year (line 5×line 6) ..	120,000	135,000	165,000
8. Shortfall (gain) or loss (line 3—line 7) .....	30,000	15,000	(\$15,000)

### (B) ANNUAL AMORTIZATION AMOUNT

Plan year	1976	1977	1978
9. Year of shortfall gain or loss .....	1976	1977	1978
10. First year of amortization ....	1981	1982	1983
11. Last year of amortization ....	1996	1997	1998
12. (Gain) or loss adjusted for interest to year amortization begins (1—1-76 to 1-1-81, etc.) .....	\$38,288	\$19,144	(\$19,144)
13. Annual amortization (16 years) .....	\$3,364	\$1,682	(\$1,682)

### (C) COMPUTATION OF NET SHORTFALL CHARGES FOR SELECTED YEARS (INCLUDING SHORTFALL AMORTIZATION)

Plan year	1981	1982	1983
14. Normal cost* ..	\$120,000	\$125,000	\$130,000
15. Amortization of unfunded liability* .....	50,000	50,000	50,000
16. Shortfall amortization (see line 13) from:			
1976 .....	3,364	3,364	3,364
1977 .....		1,682	1,682
1978 .....			(1,682)
17. Total annual computation charges .....	173,364	180,046	183,364